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Met Office business deal gives weather trading bright outlook

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A new e-commerce venture from the Met Office is set to revolutionise weather derivatives market.

The Met Office has embarked on its most significant joint venture with the private sector to drive forward the untapped weather risk management market in the UK - a market which is worth $9 billion in the United States.

A comprehensive new online trading service, WeatherXchange.com is being hailed as the premier European e-commerce weather source covering all aspects of weather data, weather risk management and forecasting.

It's set to keep the UK weather derivatives market one step ahead of its European counterparts and change the way UK businesses plan -from clothing retailers keen to avoid a glut of unsold goods through to the leisure groups whose balance sheets have traditionally fluctuated with weather temperatures.

Amanda Green, Finance Director, at the Met Office's Commercial Division, described the link-up as a unique union of business and science and the first relationship in the UK between financial markets and accurate weather data provision.

Green said: "Up to 70% of UK companies are exposed to some degree of weather risk. Weather risk management has the potential to be big business here as the British climate becomes more erratic. We're hoping to educate companies about the derivatives market so that they can more confidently hedge their exposure - and this in turn should benefit the economy as a whole."

Key to the new venture is the Met Office's partner, Umbrella Brokers Ltd, run by Cindy Dawes and co-director Alistair Stacey, who have both been involved in derivatives for nearly 20 years. They approached the Met Office several months ago because of the Government agency's reputation for providing the most accurate data on forecasts and weather conditions across Europe.

Dawes, who in December 1999 set up the first working party in Europe to look specifically at the problems and issues hindering the development of the weather derivatives market, said: "The derivatives market has been slow to take off in Europe compared to the USA where the market is well established. The trouble is that in Europe there's been no central supplier of standardised data - and data is the key element to the pricing of weather exposures that allow traders to create products to cover their clients risks.

"Many countries have their own measurements and characteristics of the definitions of weather data. Some countries do not have long enough historical records of the quality of the data needed. This has meant that pan-European companies have not been able to cover their exposure adequately.

"We saw the Met Office as being the only data supplier in Europe to offer a central supply of clean, quality controlled and uniform data - data which, most importantly, can be accessed immediately via the internet. Having instant access means industry and commerce will be able to price their weather exposure more efficiently."

In the future, the joint venture aims to help develop the liquidity of the indices and products it is creating through the setting up of teams of brokers who will market and help raise awareness of weather risk management. This aspect will be facilitated by the provision of educational courses, seminars and tutorials on data and weather risk management for all industries.

For further information:
Met Office Press Office +44 (0)1392 886655

Met Office Customer Centre 0870 900 0100
If you're outside the UK +44 (0)1392 885680

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